BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.	Rulemaking 12-06-013 (Filed June 21, 2012)

REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U902M) TO COMMENTS ON RESIDENTIAL RATE DESIGN PROPOSALS SUBMITTED PURSUANT TO RULING OF ADMINISTRATIVE LAW JUDGE ("ALJ") MCKINNEY AND SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

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San Diego Gas & Electric Company ("SDG&E") respectfully submits the following Reply to Comments on the Residential Rate Design Proposals that were filed on May 29, 2013 ("Reply") pursuant to the Ruling of Administrative Law Judge ("ALJ") McKinney and the November 26, 2012 Scoping Memo and Ruling of Assigned Commissioner ("Scoping Memo").

SDG&E notes, as a general matter, that many of the Opening Comments ("Comments") submitted by parties in this proceeding focus on short-term implementation issues that are better addressed in utility-specific rate design proceedings with the benefit of extensive factual analysis and customer and stakeholder input (e.g., bill impacts, etc.). Moreover, most Comments address only a sub-set of the ten Rate Design Principles, often to the exclusion of others. Conversely, some parties, such as SDG&E and the Environmental Defense Fund ("EDF"), have instead attempted to identify a longer-term Optimal Rate Design vision that is designed to achieve all of the Rate Design Principles in a manner that is intended to spur innovation, empower customers with accurate information and new choices, increase economic efficiency, reduce costs, reduce emissions and ensure the continued ability of the California Public Utilities Commission

("Commission") to pursue state policy objectives, but in a transparent and non-bypassable manner that does not unnecessarily obscure accurate price signals.

SDG&E submits that the Commission should primarily focus on establishing a long-term, sustainable rate design vision in this proceeding to provide longstanding guidance to parties in utility-specific rate design proceedings. Future rate design proceedings can be utilized as a vehicle to ensure a smooth transition to the long-term Optimal Rate Design vision the Commission adopts in this proceeding. The exact pace of this transition would then be determined on the basis of analysis related to the specific circumstances of each investor-owned utility ("IOU") at that point in time, customer and stakeholder input, and on the other market conditions that exist at the time.

I. EXECUTIVE SUMMARY

SDG&E has focused its Comments and proposals in this proceeding on an Optimal Rate Design that would support all of the Rate Design Principles while creating a foundation for furthering the state's environmental and energy policy goals in the long-term. On the other hand, many parties such as the Division of Ratepayers Advocates ("DRA"), The Utility Reform Network ("TURN"), and San Diego Consumers' Action Network ("SDCAN") have focused their comments more on bill and rate impacts as well as other shorter-term issues, considering only transition issues without providing a vision for a long-run Optimal Rate Design. Similarly, the Solar Energy Industries Association and Vote Solar Initiative (collectively, the "Joint Solar Parties") and Interstate Renewable Energy Council ("IREC") base their views on what they believe necessary to promote rooftop solar market growth in the short-term focusing on just a subset of residential customers.

As SDG&E noted in its Comments, the majority of parties to this proceeding agree that there are flaws in existing requirements for electric rate design for residential customers of California IOUs. However, many of those same parties then use existing rate design as a benchmark for assessing whether another party's proposed Optimal Rate Design is truly optimal. Using today's flawed legacy rate design as a benchmark, for example, many parties (TURN, DRA, SDCAN) criticized SDG&E's Optimal Rate Design proposal on the grounds that, if ever fully implemented, it would result in changes from existing bills. In so doing, parties have shifted the focus away from the Rate Design Principles and what will be necessary to achieve the state's policy objectives in the long-term.

With this backdrop, many parties present rate design issues as an either/or choice regarding the Rate Design Principles, as if the Commission would actually have to choose between accurate price signals on the one hand, and energy efficiency, low income assistance, and/or incenting investments in distributed renewable generation on the other. As SDG&E pointed out in its Comments as well as in this Reply, this is simply not the case. These same objectives, specifically supporting energy efficiency, providing for low income assistance, and incenting investments in distributed renewable generation, can be achieved through direct transparent incentives together with price signals that accurately reflect the services utilities actually provide as well as the costs utilities incur to provide those services. This kind of rate design structure would result in economic efficiency gains, further public policy objectives, drive innovation, and reduce unintended consequences. This approach would allow the Commission to achieve all, rather than a subset of the Rate Design Principles.

II. REPLY TO COMMENTS ON RATE DESIGN PROPOSALS

A. Accurate Price Signals Will Promote Economic Efficiency, Emission Reductions, and Technology Development

SDG&E's Optimal Rate Design proposal identifies the costs utilities incur to provide service its customers. Specifically, SDG&E recognizes that maintenance of a customer's utility connection causes utilities to incur costs on a fixed cost basis and that residential energy demand has two dimensions that drive utility planning and investment decisions: (1) when a customer uses energy with relation to overall system demand, and (2) a customer's individual non-coincident peak demand. Many parties advocating for retention of some variation of today's tiered rate design, who base their positions on perceived environmental benefits, have failed to acknowledge that the time at which a customer uses energy drives the cost of that energy, the relative efficiency and associated emissions of the generation that is used to produce that energy, and the system capacity resources that are used to serve that demand. More specifically, while many parties acknowledge the importance of a customer's demand during system peak hours (which drives both commodity and system capacity costs), they fail to account for the fact that a customer's non-coincident demand drives the utility planning of distribution demand capacity.

As California Large Energy Consumers Association ("CLECA") correctly states, "…there is no evidence that the costs of the distribution system vary with a customer's cumulative kWh usage. Instead, these costs vary with the non-coincident demand on the distribution system."[1] Utilities also incur a fixed cost every month to maintain a customer connection (e.g., meter, billing and related services), without regard to whether the customer uses any energy at all. To promote a full array of environmental benefits, customers should be empowered to make decisions on the basis of all of the price signals that the utility sees in

[1] CLECA Comments, at p. 5.

making investment decisions. Such a rate design would have the benefit of minimizing infrastructure additions and expansions that would otherwise not be required, even as it creates incentives for continuous reductions in Greenhouse Gas ("GHG") emissions.

In Comments, some parties, such as CLECA and EDF lend support to an unbundled rate structure along the lines advocated by SDG&E in this proceeding. Both EDF and SDG&E identify this unbundled approach as one that would include a separate price signal for recovery for different cost-causation such as distribution capacity costs based on a customer's actual utilization of distribution demand capacity (e.g., a demand charge based on non-coincident demand). EDF specifically states that "…demand charges must be carefully calibrated to be transparent to consumers, leverage-able by innovators, and clearly and precisely tied to system and environmental costs."[2] EDF goes on to state that fixed charges ought to be used as "…a stepping stone toward unbundled, dynamic rates and a diversity of rate options appropriate to match the diversity of customer interests."[3] EDF's ultimate objective is noteworthy: unbundled, dynamic rates and a diversity of rate options are appropriate to match a diversity of customer interests.

A demand differentiated fixed charge would create savings opportunities for customers when they reduce their non-coincident demand. This, combined with time-of-use ("TOU") rates and/or other alternative rate designs that better reflect the time value of full capacity needs at both local and system levels, would create incentives for development of after-meter technologies, ranging from distributed storage to demand automation that would empower customers to save money by optimizing their overall energy demand.

[2] EDF Comments, at p. 19.
[3] EDF Comments, at p. 19.

The need for an Optimal Rate Design that accurately reflects costs will only increase in the future. In its Comments, Distributed Energy Consumer Advocates ("DECA") discusses the California Independent System Operator ("CAISO") "Duck Curve," which points to a changing system peak and a growing need for resource flexibility beginning 2015.[4] With accurate price signals that create savings opportunities for customers, demand response and distributed energy resources can be better integrated as one of the lowest emitting available solutions to these kinds of system integration issues. At the same time, customers that are presented with price signals that reflect the higher costs associated with a lower load factor (using more energy at one time) will have opportunities to save money by reducing or spreading their energy demand over a greater number of hours, reducing the need for additional distribution capacity that would otherwise exist.

In its Comments, SDCAN makes the following cautionary note:

> ". . . any serious reform of residential rate design will have failed if it does not facilitate the deployment of new energy technologies and private energy management service companies serving residential customers. SDCAN's vision for the emerging real-time price environment is one of helping to build a market for new services available to the residential and small business markets. The way energy is transmitted to consumers, the way consumers receive their energy use data, the technologies used by customers and the role of the consumer in energy management need to change in order for consumers to take advantage of the sizeable investment being made in the Smart Grid investments made by California IOUs. An essential complement to these changes will be a marketplace where third parties will be providing energy and energy-related services that have not previously been available to residential consumers. For the residential consumer, whether new rate designs are embraced will be dependent, in large part, upon the success of energy management services. Third-party companies will need to deploy and likely use net-based applications and/or in-home technologies to permit customers to take advantage of real-time pricing schedules. Most all of the parties proposal significant changes in rate design have simply taken on faith that a third party market will develop or have assumed that no such market is

[4] DECA Comments, at pp. 5-7.

necessary. Yet, the evidentiary record in this rulemaking contains no evidence supporting either of those two assumptions.[5]

SDG&E agrees that an Optimal Rate Design should support the development and deployment of new energy management technologies, but disagrees with SDCAN on the best way to do this. Preserving a broken rate design that is disconnected from cost of service is unsustainable and creates uncertainty and instability for customers. The need for technological advancements is actually one of the reasons that accurate price signals are necessary. If prices accurately reflect a utility's cost, they better inform customers, and create a more stable and predictable basis for energy management investment decisions. Because new technologies create unbundled energy and reliability service alternatives for customers, utility rates must reflect these changes in order to promote technology development in a wide variety of emission reducing and customer empowering distributed energy resource technologies. While SDG&E recognizes the concerns expressed by SDCAN and others about customer bill impacts of moving from a rate design that is so far from cost-based to a rate design that reflect accurate prices, SDG&E believes that these are important issues that are best addressed in the determination of the transition path in each IOUs rate design proceeding.

B. By Reflecting Distribution System Planning Criteria and Cost Incurrence, Distribution Rates Will Promote Economically Efficient and Emission-Reducing Behavior and Technologies

The parties to this proceeding are not aligned on the subject of distribution cost recovery. The Joint Solar Parties argue that, "…in the long-run, all utility costs are variable, so there is no economic justification for fixed charges."[6] Other parties argue for fixed and demand charges to be avoidable.[7] On the other hand, despite its numerous concerns with customer charges, DRA

[5] SDCAN Comments, at pp. 2-3.
[6] Joint Solar Comments, at p. 7.
[7] DECA Comments, at p. 11; EDF Comments, at p. 19.

notes, "…it must be acknowledged that the only costs that unambiguously do not vary with customer size, demand, or volumetric usage are those of the meter and the billing services."[8]

SDG&E agrees that, in the very long-run, all costs in every industry are variable. However, many parties fail to understand the intent of pricing that reflects marginal cost and cost-causation. Customer costs vary by the number of customers, capacity costs vary by demand or kWh, and energy costs vary by kWh. Rates, in order to trigger economically efficient customer behavior, should reflect the utility planning criteria and utility cost incurrence. By reflecting utility planning and cost incurrence, price signals will create incentives (i.e. opportunities for customers to save money on their energy bills) by changing their energy demand in ways that minimize these costs. As stated by Southern California Edison Company ("SCE") "…just because all costs are variable in the long run does not mean that the efficient way to recover the costs through rate design is by volumetric rates, nor does it determine how to price goods and services to customers in order to induce efficient outcomes."[9]

SDG&E explained in its Rate Design Proposal and Comments that it incurs distribution demand costs on the basis of customer non-coincident, rather than system peak demand. To recover these costs on the basis of system peak demand or through tiered volumetric rate design would fail to reflect the manner in which these costs are incurred and, as a result, would create incentives for customers to use energy in ways that tend to increase the need for utilities to construct and maintain distribution capacity to serve non-coincident demand. On the other hand, recovery of these costs on the basis of a customer's non-coincident demand would create opportunities for customers to realize cost savings by reducing this demand, which, in turn, would reduce the need that would otherwise exist to plan for and construct distribution facilities

[8] DRA Comments, at p. 10.
[9] SCE Comments, at p. 36.

to meet this demand. In this sense, such a charge would be avoidable (as proposed by EDF and CLECA) to the extent customers are able to reduce the need for this capacity to serve them.

C. Fixed Costs Should be Recovered on a Fixed Cost Basis

DRA notes that, "The subjects of fixed costs and fixed charges are extremely complex and better reserved for the general rate cases."[10] SDG&E agrees with DRA that the details should be addressed in utility-specific proceedings, but submits that the Commission's overall rate design policy and Optimal Rate Design objectives should be outlined in this proceeding at a policy level. Put simply, the Commission need not determine exactly what costs are incurred on a fixed cost basis to determine, at a policy level, that an Optimal Rate Design would have fixed costs recovered on a fixed cost basis.

As SCE points out in its Comments:

> "…D.96-04-050 and the well-reasoned CPUC decisions cited therein point to the clear reasons why a customer charge should be adopted in a rational residential rate design – the fact that such charges are cost-based, the fact that fixed costs do not vary with consumption, and the fact that collection of fixed costs through fixed rates would reduce cross-subsidies that are improperly reflected in a rate structure where fixed costs are recovered almost exclusively through volumetric rates." Outside of statutory provisions preventing the Commission from adopting fixed charges, little has changed with respect to this fundamental rate design principle since 1996. In D.11-05-047, the Commission recently reiterated the fundamental support for a fixed charge, stating that "[a] fixed customer charge would more closely reflect cost causation and would more closely align PG&E's retail rates with costs… .".[11]
>
> A fixed charge should be part of a rational residential rate design – such charges are cost-based, they do not vary with consumption, and collection of fixed costs through fixed rates would reduce cross-subsidies that are improperly reflected in a rate structure where fixed costs are recovered exclusively or almost exclusively through volumetric rates. Because customers want simplicity in addition to stability, a monthly fixed charge would help to appropriately collect fixed costs, while providing more stable bills from month to month."[12]

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[10] DRA Comments, at p. 6.
[11] SCE Comments, at pp. 31-22.
[12] SCE Comments, at p. 32.

Fixed cost recovery through fixed customer charges not only reduces cross-subsidies, it promotes rate stability. As Pacific Gas and Electric Company ("PG&E") points out, "The parties who criticize the use of a fixed charge to recover fixed costs ignore a significant customer benefit of a fixed charge – a fixed charge moderates the volatility of many customers' monthly bills due to extreme weather events, such as the extreme heat waves that California periodically experiences during summer months."[13]

The Alliance for Solar Choice ("TASC") and DRA both contend that utilities support fixed cost recovery through fixed charges in order to "protect their revenue streams."[14] This contention fails to reflect an understanding of California's decoupled rate recovery policy. With decoupled rate recovery, utility shareholders are shielded from the impact of whether fixed costs are recovered from the customers on whose behalf they are incurred, however utility customers are not. As a result, to the extent that one customer does not pay for the costs that are incurred to provide them with utility services, another customer is forced to pay these costs. Put simply, with decoupled rate recovery, the risk of inaccurate price signals and poor rate design is borne by energy consumers, and not by utilities.

As SCE points out, "The plain fact is that fixed charges are the norm for residential customers for most services they encounter, including equally essential use of natural gas and water. Their use in all of these contexts is consistent with Commission's past decisions and cost-based principles."[15]

[13] PG&E Comments, at p. 4.
[14] TASC Comments, at pp. 12-13; DRA Comments, at p. 3.
[15] SCE Comments, at pp. 33-34.

D. Tiered Rate Design Fails to Encourage Conservation for the Majority of the State's Electricity Demand

As SCE points out in its Comments, ". . . tiered rates send incorrect price signals, with lower-usage customers having less incentive to conserve and no incentive for load shifting. There is little or no empirical evidence that increasing block pricing results in conservation, and the limited empirical evidence suggests the opposite."[16] CLECA states that setting the prices for the first two tiers below costs and the prices for the third and fourth tiers above costs sends the wrong price signals to customers leading to inefficient decision making because there is no cost-basis for this pricing.[17] For SDG&E, the current tiered rate structure provides reduced conservation incentives for 2/3 of residential electricity demand (Tier 1 and Tier 2 residential demand) because of rates being priced below costs. As a result, customers with consumption only in Tiers 1 and 2 are unwilling to spend as much on energy efficiency and demand response than those in Tier 3 and Tier 4.

The Center for Accessible Technology and Greenlining (collectively, "CforAT/Greenlining") argue that tiered rates are beneficial because they encourage conservation and benefit low income energy consumers.[18] SDG&E supports policies that are intended to ensure that necessary quantities of electricity are affordable for low income customers. However, as SDG&E pointed out in its Comments, inaccurate price signals are not necessary to promote affordability, or other public policy objectives. Instead, low income assistance can be more effectively made available through a direct transparent incentive or subsidy that does not obscure the actual costs associated with the customer's electricity

[16] SCE Comments, at pp. 20-21.
[17] CLECA Comments, at pp. 5-8.
[18] CforAT/Greenlining Comments, at pp. 1 and 5.

consumption. As CLECA correctly points out, all customers should be provided accurate prices signals with required subsidies being transparent and not buried in rate design.[19]

E. Clarification of SDG&E's Optimal Rate Design Proposal

To accurately reflect the cost drivers identified above, SDG&E's has proposed an Optimal Rate Design proposal under which:

- Utilities charge for the services they provide;
- Utilities recover costs on the same basis in which they have been incurred; and,
- Incentives or subsidies that have been deemed necessary to further public policy objectives are separately and transparently identified.

For illustrative purposes, SDG&E has pointed out that this could take the form of a rate design under which distribution costs would be recovered through a demand differentiated basic service fee based on the customer's non-coincident demand or a fixed customer charge, and has presented illustrative transition steps that could be taken to achieve this outcome. SDG&E emphasizes, however, that these hypothetical scenarios have been presented for illustrative purposes; they are not SDG&E's Optimal Rate Design proposal.

On July 1, 2013, SDG&E submitted its response to ALJ McKinney's Ruling Ordering Parties to Submit Additional Information for Rate Design Proposals, Confirming Workshop Date, and Setting Forth Format for Comments ("Ruling"), issued on June 13 and confirmed on June 18, 2013, requiring each IOU to provide illustrative rate designs and illustrative bill impacts for both (1) a transitional and (2) an end-state rate design based on the instructions found in Attachment B of the March 19 ALJ Ruling. In its July 1 submittal, SDG&E provided bill impact information associated with a five step transition for the following:

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[19] CLECA Comments, at p. 11.

- Distribution recovery through a basic service fee;
- Distribution recovery through a demand differentiated basic service fee; and
- Commodity recovery through a TOU rate.

The bill impact information provided in SDG&E's July 1 response reflected the specific component addressed (i.e. distribution and commodity) and did not reflect the total bill impacts. SDG&E had provided illustrative rate and bill impacts limited to a single component in order to be able to isolate the bill impacts from the identified changes. These impacts were presented in a five step transition and were based on current costs, revenues, and determinants. These illustrative looks were provided in response to the ALJ Ruling and do not constitute SDG&E's Optimal Rate Design proposal. Further, SDG&E emphasized the need to accommodate and seek ways to mitigate bill impacts in individual rate setting proceedings based on stakeholder input and then-existing conditions thereby necessitating a transition path that would continually re-examine context and priorities with each move towards more accurate prices.

At the request of Energy Division ("ED"), on July 15, 2013, SDG&E submitted a supplement to the July 1 filing that included "illustrative bundled rate designs and illustrative bill impacts."[20] The bundled look requested by ED required that assumptions be made regarding the transition and end state of tiered rates. The current tiered rate structure builds on baseline, which is intended to support the public policy of ensuring equal access to affordable electricity across climate zones (for SDG&E this is across four climate zones: Coastal, Inland, Mountain, Desert) and across service types (basic service (gas and electric) and all-electric service) and seasons (summer/winter). SDG&E's Optimal Rate Design moves subsidies and incentives for supporting public policy out of rate design into separately identified transparent subsidies or incentives.

[20] Email request from Gabriel Petlin of the Commission's Energy Division, sent to SDG&E on July 8, 2013.

SDG&E did not make specific assumptions regarding the transition to end-state for the removal of baseline usage from the tiered rate structure to a separate transparent incentive. To satisfy the ED request, SDG&E provided illustrative bundled rate design and illustrative bill impacts with the following assumptions related to tiered rate transition:

- The introduction of fixed charges (basic service fee, demand differentiated basic service fee) results in reductions in the upper tier rates.
- Once the upper tier rate reaches Tier 2 levels, the upper tier rate will be set equal to the Tier 2 rate. The same occurs with Tier 1; once the upper tier rate reaches Tier 1 levels then all tiers are set equal and there is an effective flat rate with no tiers.

In addition to the assumptions related to tiered rates, the ED request required SDG&E to make an assumption regarding the coordination of the transition path for distribution and commodity. SDG&E, in its July 1 response, provided information for both distribution and commodity illustrations separately. SDG&E recognizes that an appropriate transition path would look at the priorities based on the specific circumstances and did not make specific assumptions on the coordination of the two illustrations. Nevertheless, to comply with the ED request, SDG&E provided the following based on a five step transition. Included is a summary of the incremental impacts for each step, shown as a percent of customers within +/- 5% and +/- 10% bill impact compared to the previous step. The impacts are indicative of the residential population; however, impacts for individual customers may vary.

Basic Service Fee w/ Flat Energy

	5% to 5% Bill Impact				*10% to 10% Bill Impact*			
	Non CARE		CARE		Non CARE		CARE	
	# Customers	% Non CARE	# Customers	% CARE	# Customers	% Non CARE	# Customers	% CARE
Step 1	222,050	22%	32,130	16%	456,431	44%	84,459	43%
Step 2	202,804	20%	51,380	26%	425,934	41%	82,696	42%
Step 3	277,628	27%	62,361	32%	531,375	52%	114,680	59%
Step 4	583,795	57%	122,809	63%	884,029	86%	143,807	74%
Step 5	572,581	56%	105,607	54%	884,029	86%	143,807	74%

Basic Service Fee w/ TOU Energy

	5% to 5% Bill Impact				*10% to 10% Bill Impact*			
	Non CARE		CARE		Non CARE		CARE	
	# Customers	% Non CARE	# Customers	% CARE	# Customers	% Non CARE	# Customers	% CARE
Step 1	219,339	21%	36,739	19%	451,962	44%	82,696	42%
Step 2	213,785	21%	51,380	26%	437,859	42%	79,985	41%
Step 3	296,874	29%	70,631	36%	540,588	52%	121,047	62%
Step 4	592,998	58%	120,098	62%	903,129	88%	143,807	74%
Step 5	584,642	57%	101,947	52%	903,129	88%	143,807	74%

Demand Differentiated Basic Service Fee w/ Flat Energy

	5% to 5% Bill Impact				*10% to 10% Bill Impact*			
	Non CARE		CARE		Non CARE		CARE	
	# Customers	% Non CARE	# Customers	% CARE	# Customers	% Non CARE	# Customers	% CARE
Step 1	287,780	28%	42,157	22%	598,536	58%	106,406	55%
Step 2	258,508	25%	40,399	21%	583,764	57%	109,117	56%
Step 3	337,117	33%	87,968	45%	674,694	65%	156,541	80%
Step 4	790,358	77%	151,931	78%	985,896	96%	188,374	97%
Step 5	810,582	79%	149,220	77%	985,896	96%	188,374	97%

Demand Differentiated Basic Service Fee w/ TOU Energy

	5% to 5% Bill Impact				*10% to 10% Bill Impact*			
	Non CARE		CARE		Non CARE		CARE	
	# Customers	% Non CARE	# Customers	% CARE	# Customers	% Non CARE	# Customers	% CARE
Step 1	268,530	26%	43,106	22%	597,722	58%	106,406	55%
Step 2	259,452	25%	40,399	21%	600,293	58%	120,093	62%
Step 3	325,318	32%	87,968	45%	672,124	65%	152,880	79%
Step 4	799,712	78%	138,239	71%	974,915	95%	188,374	97%
Step 5	797,698	77%	149,220	77%	982,235	95%	188,374	97%

In looking at bundled bill impacts, the assumptions related to tiered rates largely drive the bill impacts. Under the assumptions made for tiered rates, the highest percentage bill impacts occurred for the lowest use customers, largely due to the change from minimum bill to basic service fee, in the early steps. Once there is further movement from the inclining block rate structure, the percentage bill impacts reduce significantly. In addition, these large percentage increases generally amount to a relatively small dollar amount change, less than the incremental

basic service fee change. The highest percentage impacts for each step are shown below with the corresponding dollar impact as well as number of customers and average monthly usage.

Basic Service Fee w/ Flat Energy

	Non CARE					CARE				
	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% Non CARE	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% CARE
Step 1	125% 150%	$7	40	6,367	1%	50% 60%	$6	108	19,100	10%
Step 2	100% 125%	$8	1	6,367	1%	35% 40%	$6	108	19,100	10%
Step 3	45% 50%	$8	1	6,367	1%	25% 30%	$6	106	12,733	7%
Step 4	30% 35%	$8	1	6,367	1%	15% 20%	$5	108	19,100	10%
Step 5	20% 25%	$7	19	19,100	2%	15% 20%	$5	106	12,733	7%

Basic Service Fee w/ TOU Energy

	Non CARE					CARE				
	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% Non CARE	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% CARE
Step 1	100% 125%	$7	40	6,367	1%	50% 60%	$6	106	12,733	7%
Step 2	100% 125%	$8	1	6,367	1%	35% 40%	$6	108	19,100	10%
Step 3	45% 50%	$8	1	6,367	1%	25% 30%	$6	106	12,733	7%
Step 4	30% 35%	$8	1	6,367	1%	15% 20%	$5	108	19,100	10%
Step 5	20% 25%	$7	19	19,100	2%	15% 20%	$5	106	12,733	7%

Demand Differentiated Basic Service Fee w/ Flat Energy

	Non CARE					CARE				
	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% Non CARE	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% CARE
Step 1	40% 45%	$3	38	12,733	1%	40% 45%	$5	114	19,100	10%
Step 2	90% 100%	$3	1	6,367	1%	25% 30%	$5	114	6,367	3%
Step 3	45% 50%	$3	1	6,367	1%	20% 25%	$5	114	6,367	3%
Step 4	30% 35%	$3	1	6,367	1%	10% 15%	$4	114	6,367	3%
Step 5	20% 25%	$3	1	6,367	1%	10% 15%	$4	114	6,367	3%

Demand Differentiated Basic Service Fee w/ TOU Energy

	Non CARE					CARE				
	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% Non CARE	Highest % Impact	Avg. $/Month	Average kWh	# Customers	% CARE
Step 1	40% 45%	$3	38	12,733	1%	35% 40%	$4	114	6,367	3%
Step 2	90% 100%	$3	1	6,367	1%	25% 30%	$5	114	6,367	3%
Step 3	45% 50%	$3	1	6,367	1%	20% 25%	$4	114	6,367	3%
Step 4	30% 35%	$3	1	6,367	1%	10% 15%	$3	114	6,367	3%
Step 5	20% 25%	$3	1	6,367	1%	10% 15%	$4	114	6,367	3%

The scenarios presented above, and in both SDG&E's July 1 and July 15 filings do not represent SDG&E's Optimal Rate Design proposal. Again, SDG&E emphasizes that these illustrative scenarios have been developed in the absence of customer and stakeholder input and in the absence of knowledge concerning the conditions that will exist when future filings are

made. This data is based on existing market conditions and static billing determinants and does not represent SDG&E transition proposals.

III. CONCLUSION

SDG&E respectfully submits this Reply for the Commission's consideration. For the reasons SDG&E has pointed to herein, an Optimal Rate Design is one under which:

- Utilities charge for the services they provide;
- Utilities recover costs on the same basis in which they have been incurred; and,
- Incentives or subsidies that have been deemed necessary to further public policy objectives are separately and transparently identified.

SDG&E's Optimal Rate Design Proposal would accomplish and balance each of the Rate Design Principles, accurately inform customers, stimulate innovation, and provide a platform for long-term growth in the policy objectives of the state and this Commission.

DATED at San Diego, California, on this 26th day of July, 2013.

Respectfully submitted,

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